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A memorandum on trade with soviet Russia

New York City

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Submitted to the Committee on Foreign Relations of the United States Senate, January 1921, in connection with the Hearing upon the Resolution of the Hon. Joseph I. France, Relating to the Resumption of Trade with Soviet Russia.

By

JOHN SPARGO

Author of "Russia As An American Problem"
Etc., Etc.

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The Question of Trade With Soviet Russia

A Memorandum submitted to the Committee on Foreign Relations of the United States Senate, January, 1921, in connection with the hearing upon the Resolution of the Hon. Joseph I. France, relating to the resumption of trade with Soviet Russia.

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I. *Introduction*

That the restoration of trade between the United States and Russia, and its extensive development, are desirable, scarcely admits of discussion or dispute. As a student of Russian history and politics during many years, I have long held that the interest of the civilized world in general, not less than that of Russia herself, require the intensification of Russian production, both industrial and agricultural, and the expansion of Russia's trade with other countries, especially those of the Western world. Quite early in the World War, in the latter part of 1914, I set forth this view in an article which was widely commented upon at the time, and was translated into Russian and circulated among the leaders of the Russian democracy by my friend, the late Mr. George Plechanov. In my *Russia As An American Problem,* published in February, 1920, I set forth the same view at some length, fortifying it with an elaborate statistical survey of Russia's economic requirements and resources. In that study I examined with particular care the credit requirements of Russia and the basis for securing such credit.

From the foregoing it will be recognized that I am entitled to claim a sympathetic interest in the object of the Resolution by Senator France. The rapid re-habilitation of the agriculture of Russia is needed to help in putting an end to the famine con-

ditions which prevail over such a large part of Europe, and her raw materials are scarcely less necessary for the revival of the world's industry. Provided only that it can be accomplished with safety to ourselves, and to the mutual advantage of the two countries, trade with Russia should be resumed, upon the largest possible scale, regardless of Communism. There can be no reconstruction of Europe, and no economic stability in the world, until Russia is brought into normal economic relations with other nations. Because that is my conviction, based upon the results of much study of the problem, I desire to see trade with Russia revived as quickly and as extensively as possible, and deplore the necessity of admitting that prolonged and careful investigation and study of all the available data have forced me to reach the conclusion that it is not possible for this country to enter into trade relations with Soviet Russia, under existing conditions, without incurring serious risk of unprecedented economic disaster and revolutionary upheaval. In support of this view I desire to submit to the Committee on Foreign Relations the following observations and facts:

II. *The Problem Misrepresented*

In a formal statement published on Dec. 21, 1920, the former Secretary of the Treasury, the Hon. William G. McAdoo, said: "I have long been convinced that we ought to re-establish trade relations with Russia. It is not necessary to recognize the Soviet Government to do this. Why should we refuse to let people in distress in Russia or elsewhere buy our products if they can pay for them, no matter what form of government they may choose for themselves?" I find it difficult to comprehend that the man who as Secretary of the Treasury handled with such mastery the problems of war finance, could so thoroughly misconceive the very nature of the problem of dealing with Soviet Russia. Ignoring the well-known fact that the present Government of Russia, and the form of that Government, cannot by any stretch of the imagination be said to represent the choice of the Russian people, I desire to address myself to two other points in that statement.

Mr. McAdoo asks "Why should we refuse to let people in

distress in Russia or elsewhere buy our products if they can pay for them, no matter what form of government they may choose for themselves?" The issue here drawn does not exist in fact, as every member of the Senate Committee on Foreign Relations must be aware. Since the Government of the United States, in July, 1920, removed practically all restrictions upon trade with Russia, except as applied to goods and materials for military uses—restrictions which amount to a limited embargo, and not a blockade—every possible justification for such a view of the problem as that expressed by Mr. McAdoo has ceased to exist. In New Haven, Connecticut, a few days ago I saw large advertising posters conspicuously displayed, calling upon the thousands of unemployed workers in that city to demand the removal of the "blockade" of Soviet Russia, which, it was alleged, was responsible for their unemployment. The appeal emanated from well-known pro-Bolshevist sources. The danger of such an appeal to masses of unemployed men at this time, can hardly be over-emphasized. It is, of course, quite easy to understand the recklessness of the pro-Bolshevist propagandists, but it is not so easy to understand why responsible statesmen should add to such dangerous propaganda the prestige and authority of their approval.

In all the communications made by the Government of the United States to other governments upon this question, and all the published statements of policy relating to Russia made by the present Administration, there is not a sentence which can be reasonably interpreted as an objection on the part of the Government or the people of the United States to Russia having a government by Soviets. On the contrary, the Government of the United States has consistently recognized the right of Russia to maintain, as an inviolable prerogative of her sovereignty, any form of government she pleases, so long as she does not violate the rights of other nations or of their nationals. We do not "refuse to let people who are in distress in Russia or elsewhere buy our products if they can pay for them." That issue simply does not exist, either for the Government or the people of the United States, or the Government or the peoples of any other nations. I make this statement in the most sweeping terms pos-

sible; it applies equally to the United States, its Allies in the recent War, the enemy nations and all the neutral nations.

III. *Responsibility of the Soviet Government*

The fact is that instead of our Government refusing to let the people of Russia buy our products, *the present Soviet Government refuses that right to its citizens. No Russian citizen is at liberty to buy goods in this or any other country and to import them into Russia.* The Soviet Government has suppressed every right of private citizens, whether individuals or commercial corporations, to engage in foreign trade. In Soviet Russia foreign trade, both export and import, is an absolute monopoly of the State. No trade with Russia can be had except through the Soviet Government itself. Mr. H. G. Wells, the English writer, in a widely published brief for the resumption of trade with Soviet Russia, has had to admit that this is the case, and that "it is hopeless and impossible, therefore, for individual persons and firms to think of going to Russia to trade." He rightly insists that trade can only be had with Russia through the medium of the Soviet Government itself. That he is quite correct in making this statement, there is an abundance of incontestable evidence, furnished by the accredited representatives and spokesmen of the Soviet Government. For the present I shall content myself with a single citation upon the point: On June 8, 1920, the Supreme Economic Council of the League of Nations addressed a series of sixteen questions to the delegates of the Soviet Government. The first three questions were as follows:

"1. Are the delegates of the Soviet Government the only persons who have the right to carry on foreign trade outside Russia?

"2. Is the Soviet Government the only body with which foreign traders will be allowed to do business in Russia?

"3. What is the legal effect and what will be the consequences of contracts made; (a) with bodies and persons in districts of Old Russia, which do not at present recognize the authority of the Soviet Government; (b) with bodies or persons in Soviet Russia not included under question 2?"

On June 26, 1920, at the meeting of the Supreme Economic

Council, the Russian Soviet Delegation, Messrs. Krassin, Nogin, Rosovski, and Klyshko, were present and submitted their replies to the questions of the Council. The replies to the three questions quoted above were as follows:

"1. *The foreign trade of Soviet Russia is a monopoly of the Government.* The organization through which this monopoly functions is the National Commissariat for Foreign Trade, which exercises its powers with the assistance of its representatives and agents. The delegation of the Soviet Government is the sole body which possesses full powers to carry out negotiations with foreign Governments for the resumption of trade.

"2. The National Commissariat for Foreign Trade and its organizations is the only body with which foreigners will be able to carry out trade in Russia.

"3. The only contracts which have any legal recognition are agreements and contracts made with the Commissariat for Foreign Trade and its organizations. (a) No responsibility as to the fulfillment of agreements and contracts made "with bodies and persons in districts of Old Russia which do not at present recognize the authority of the Soviet Government" can be taken by the Soviet Government, such agreements having no legal standing. (b) An answer can be given on examination of each individual case."

I respectfully submit that (1) the Soviet Government itself has suppressed the right of its citizens to trade with us, and that it is contrary to the fact to state that there are people in Russia needing our goods, for which they are willing and able to pay, who are prevented from purchasing such goods by any act of the Government or the people of the United States; (2) that there can be no important amount of trade with Soviet Russia without recognition of the Soviet Government, for it is manifestly impossible for us to have trade transactions involving credits of many millions, and even billions, of dollars, with a government which we do not recognize and with which we are unwilling to maintain normal relations.

IV. *The Problem As It Is*

The real problem of the resumption of trade with Russia, under existing conditions, resolves itself into the following: The

Soviet Government, which rules without any other sanction than brutal force, wants to purchase, principally upon credit, several billions of dollars worth of our products. Outside of such securities for credit as it may have to offer, it has a limited amount of gold and platinum, and some raw materials, which it would offer in exchange for our goods. The sum of the value of the commodities it has to offer in exchange, including the gold and platinum, is so small in comparison with the volume of the value of the goods desired as to be almost negligible. It is, and must of necessity be, principally a question of trade upon a credit basis.

The character of the Soviet Government, its stability, its resources, the degree of support accorded to it by the Russian people, the prospects of successful revolt against it and repudiation of its acts, its attitude toward foreign nations and toward such of their nationals as may be its creditors, are matters with which we may legitimately concern ourselves. More than that, they are matters of vital importance which we cannot ignore or treat with indifference without incurring the risk of serious disaster. I submit that the Government of the United States, like every other civilized Government, is in honor and morals bound to protect the interests of its nationals, and to insist upon just treatment by other Governments, in accordance with the established principles of international law, for itself and its nationals. I submit, further, that if there is good reason to believe that the Soviet Government will not deal honestly and in good faith with such of our citizens as extend credit to it, but that in pursuance of a deliberate policy it will wrong them, the United States Government is abundantly justified in discouraging its nationals from entering into trade relations with the Soviet Government, and warning them that if they do so, they must do so at their own risk.

V. *The Testimony of H. G. Wells*

Upon this point the testimony of Mr. H. G. Wells, from whom I have previously quoted, is pertinent. The fact that Mr. Wells has indulged in certain superficial criticisms of the Bolshevist regime, and the further fact that he denies being a believer in Bolshevism, must not be permitted to blind us to the significance

of his testimony. He visited Russia upon the invitation of the Soviet Government, and as its guest. He enjoyed the privileges of a guest, and was subject to a guest's obligations. His criticisms of the Bolshevist regime and his denial of belief in Bolshevism are simply the foil against which he sets to maximum advantage the argument in favor of trade with Soviet Russia. Mr. Wells says:

"In all Russia there remain now no commercial individuals and bodies with whom we can deal who will respect the conventions and usages of western commercial life. *The Bolshevist Government, we have to understand, has, by its nature, an invincible prejudice against individual business men; it will not treat them in a manner that they will regard as fair and honorable; it will distrust them and, as far as it can, put them at the completest disadvantage.*

"It is hopeless and impossible, therefore, for individual persons and firms to think of going to Russia to trade."

That the statement of Mr. Wells is true will not be doubted by any one who is familiar with the facts. The whole costly and far-reaching propaganda carried on in this country to persuade our business men that only our Government prevents their enjoyment of a trade with Russia from which immense profits might be derived, the repeated offers of valuable concessions to American capitalists, such as the much discussed Kamchatka concession to Mr. Washington B. Vanderlip and his associates, are thoroughly dishonest and intended to attain political rather than commercial ends, as I shall presently attempt to prove by evidence which your honorable body will recognize as conclusive and incontestable.

For the moment, however, let me assume the correctness of the statement by Mr. Wells: If there are no individual business men or firms in Russia with whom American citizens can trade, and if it is "hopeless and impossible" for any individual citizens or firms "to think of going to Russia to trade," obviously there can be no alternative method of resuming trade with Soviet Russia save through a revolution in our own economic system which would make our Government the sole agency for carrying on such trade. In other words, trade with Russia must be made

a Government monopoly, the United States Government dealing directly with the Soviet Government. This means one of two things: either we must go bodily over to Communism, so that the Communist Government of the United States would deal directly with the Communist Government of Soviet Russia, or the United States Government must itself assume the functions of a trustee and agent conducting trade with Soviet Russia on behalf of such of our citizens as may seek profit through such trade. Bearing in mind the fact that the bulk of the goods required by Russia must be furnished upon credit, it would be necessary in either case for our Government to accept the securities of Soviet Russia to the extent of billions of dollars.

If there are no commercial individuals or bodies in Russia with whom our citizens can trade, but only a Communist regime, which has arrogated to itself the powers of government, which is the only body empowered to trade, asserting sole ownership of all Russian resources, raw materials, agricultural products, industrial establishments, and the like; if moreover, that Communist regime is confessedly incapable of treating our business men honestly, and is bound to "put them at the completest disadvantage," why should American citizens invest in such a poor risk? And if any considerable number of citizens do enter upon trade under these conditions, and are wronged by the Bolshevist Government, is it not practically certain that they will demand that the Government of the United States protect their rights, and that there will thus be drawn an exceedingly dangerous issue between the two Governments?

VI. *Bolshevist Business Methods*

If it is useless for individual business men or firms to expect honest and honorable treatment at the hands of the Soviet Government, is there any good reason for believing that "capitalist governments" would be better treated? All the available evidence tends to establish the contrary. Confining myself for the moment to trade questions, let me cite a few specific cases from which individual citizens and our Government may well take warning: At the San Remo meeting of the Supreme Economic Council, May 22, 1920, the British representative made a report formally

protesting *that a quantity of flax stored at Reval was being offered for sale by the agents of the Soviet Government, notwithstanding the fact that it had already been bought and paid for by the British Government.* When I was in Sweden, in October, 1920, much indignation was being expressed by bankers and merchants in Stockholm because gold tendered to Swedish firms in payment for goods supplied, had been found to contain a large percentage of bismuth. Warned by the Swedish experience, British firms which were negotiating with the Krassin Trade Mission, demanded that a clause be inserted in the contracts providing for an assay of the gold before its acceptance. This was surely a reasonable enough proposal, and one which the Soviet Government could hardly have declined if it had been acting in good faith. As a matter of fact, the Soviet representatives refused to agree to the demand and the negotiations were dropped.

On June 26, 1920, at the yearly meeting of the *Deutch-Ost-Europaischer Wirtschaftsverband,* held at Elbefeld, Germany, the whole question of trade between Germany and Soviet Russia was threshed out. Mr. Meyer, Manager of the Society, said: "We have negotiated with the representatives of the Soviet Government in Berlin and in Copenhagen since 1919, and they have always tried (and failed) to fool us. They demanded offers of goods, promised a great deal, but as yet have done nothing. *They have always found some excuse for not abiding by their word . . .* I do not think that it will be possible for private firms to trade with Russia in the near future." Quite similar is the statement issued by the London representative of the Norwegian Government, in February, 1920. Though not charging the Soviet Government or its representative, Litvinov, with fraud, the statement did charge that Litvinov's commercial negotiations with Norway were merely camouflaged political efforts. Mr. Mjelde said: "Mr. Litvinov's proposals are considered impossible from a commercial point of view, and in addition, *he has made them dependent on conditions that would practically involve political recognition by Norway of Soviet Russia.*" At the meeting of the Supreme Economic Council, July 26, 1920, a memorandum was submitted by the Norwegian representatives, setting forth that certain timber offered for sale by the agents of the Soviet Gov-

ernment was the property of a Norwegian firm, and warning was given that necessary steps would be taken to contest the claims of any other person or persons to that timber. In connection with the Norwegian protest, the British Foreign Office, after consulting with the Supreme Economic Council gave this significant pledge: That the regulations which will be established in respect of goods hitherto belonging to British merchants and at present seized by the Soviet Government, *will be extended fully to foreign traders.* According to that pledge, the rule laid down by the British courts in a recent case involving title to certain timber disposed of by the Soviet Government would be applied to all similar cases in Great Britain, regardless of the nationality of the claimants.

In the British case in question, a Russian firm having a branch in England, secured a writ of attachment against certain timber which arrived at a British port from Soviet Russia. It had been sold by Krassin and his colleagues, acting as the agents of the Soviet Government, to a British firm. The claimant company proved that the timber had belonged to it and has been confiscated by the Bolshevist Government in 1918. The judgment of the court returned the timber to its original owners and denied the validity of the confiscation by the Bolsheviki and the subsequent sale. The decision of Mr. Justice Roche, which is of the utmost importance in connection with this whole question, set forth the right of the Soviet Government to confiscate and subsequently dispose of property could not be admitted in Great Britain, because, "the British Government had never recognized the Soviet Government, which in this country (Great Britain) had, therefore, no legal status." It is apparent that, according to Mr. Justice Roche, recognition of the Soviet Power as the *de jure* Government of Russia would make it legal for one British trader or set of traders to receive in payment the goods belonging to another trader or set of traders.

VII. *The Soviet Government and "Concessions"*

Leaving the question of recognition of the Soviet Government for examination a little later on, let me deal, very briefly, with the matter of economic concessions, and, in particular, the Bolshevist policy as illustrated by the dealings with the Vanderlip syndicate already referred to. We must remember that the concessions were offered to American citizens in part return for goods valued at several hundreds of millions of dollars, by the Soviet Government which is seeking credit here to the extent of several billions of dollars, and, at the same time, full recognition by our Government. I quote translations of extracts from speeches by Lenin and Zinoviev, published in the official Bolshevist press, and respectfully suggest that the Committee on Foreign Relations request the State Department to supplement these with the translation of other important statements by the responsible leaders of the Soviet Power upon questions of international policy. The following passage is from an important address delivered by Lenin at the Moscow Convention of the Communist Party in November, 1920, and reported in the Petrograd *Pravda*:

"The differences between our enemies have recently increased, particularly in connection with the proposed concession to be granted to a group of American capitalist sharks, headed by a multi-millionaire who reckons upon grouping around himself a number of other multi-millionaires. Now all the communications coming from the Far East bear testimony to the fact that there is a feeling of extreme bitterness in Japan in connection with this agreement, *although the latter has not been signed yet and is so far only a draft.*"

On Nov. 23, 1920, the official Bolshevist paper, the *Krasnaya Gazetta,* published a report of the same address containing the following paragraph dealing with the subject of concessions:

"Our granting of concessions to the American millionaires will serve to make relations between Japan and America more strained. There is already talk in Japan that Russia is driving it to war with America. We shall utilize their conflict for our own interests. By signing concession agreements with the Bourgeoisie, we gain a moral as well as material victory. Our foes, burning with desire to crush us by armed force, are now compelled to conclude agreements with us, and to contribute to our consolidation and strengthening. To condemn us for signing the concessions would be right only if we were able to overthrow capitalism throughout the world with the effort of one country."

On Dec. 1, 1920, the Petrograd *Pravda,* number 270, published the report of yet another speech upon this subject by Lenin. According to this official Bolshevist newspaper, in addressing a meeting of secretaries of the Communist Party Nuclei—the organization through which the numerically negligible Bolshevist minority contrives to dominate the majority—Lenin said:

"We have been offered a plan of a concession on Kamchatka for ten years. The American billionaire stated frankly that America wants to have in Asia a base for the eventuality of war with Japan. This billionaire said that if we will sell Kamchatka, he can promise us such an enthusiasm among the population of the United States that the American Government will immediately recognize the Soviet Power in Russia. If we shall merely lease it, the enthusiasm will be smaller.

"Until now we have defeated the bourgeoisie because it does not know how to act in unison. *Now the enmity between the United States and Japan is growing. We shall take advantage of this* and offer to lease Kamchatka, instead of giving it away gratis. Has not Japan grabbed from us an immense stretch of land in the Far East? It is far more advantageous to us to lease Kamchatka and obtain from there part of its products, since in reality we do not control it anyhow, and cannot use it.

"The agreement has not yet been signed, but *we are already at this time intensifying the friction between our enemies.* Also, it is a good form of concessions. We shall give away a few million dessiatines (1 dessiatine equals 2.7 acres) of forest in the Archangel Province which we are unable, in spite of our best efforts, to exploit. A chess-board system will be established whereby our own parcel of forest comes alongside of a leased concession, and this we shall be able to exploit, and our workers will thus learn technical skill from them. *All that is very advantageous to us.*

"Concessions are not peace. They are also war, only in a different form, more advantageous to us. The war will be fought on the economic front. It is possible that they will try to restore free trade, but then they do not sign the agreement alone, without us. They are bound to abide by all our laws, and in case of war the whole property remains ours by right of war. Concessions

are merely a continuation of the war on an economic plane, only in this case we no longer destroy but, on the contrary, develop our productive forces. No doubt they will attempt to deceive us and to evade our laws, but then *we have with us the All-Russian, the Moscow, the Provincial and all the other Extraordinary Commissions,* so we do not fear them."

Thus the Bolsheviki are relying upon the Red Terror to deal with our investors. On Dec. 8, 1920, Zinoviev, by many regarded as the ablest and most influential Bolshevist leader next to Lenin, delivered an important address at a meeting in Petrograd. From the report of that address published in the *Pravda* of Petrograd, number 281, Dec. 14, 1920, the following paragraphs are quoted:

"The position is this: Our Socialist republic is encircled by capitalism. Obviously, Socialism and Capitalism cannot maintain neighbourly relations for any length of time. History knows of two issues: either the world revolution, or capitalism must win. But the period of "balance" will last several years. Meanwhile, the forces develop in such a manner that Socialism is gaining strength, whilst Capitalism is waning.

"The question of concessions is a question of economic peace between ourselves and the Powers of the West. Some people call this a Brest-Litovsk. Such, however, is not the case. If we are in need of commercial relations with the West, the Western Powers stand in greater need of trade with us owing to the unprecedented industrial and economic crisis.

"It is likewise wrong to state that in granting concessions to Western Capitalism, Russia will come under its influence and become its colony. Concessions would have long since been agreed to by the West had they been altogether profitable. *If there be any danger in concessions the danger is solely to the Western capitalists, into whose camp the concessions may bring a severe split.*

"To use plain language, the gist of the matter is: who is going to be outwitted? We think that we shall outwit them, as we shall be capable of defending ourselves in the encounter with the business men of the West.

"The economic side of the question is very important. In carrying out the concessions, *the capitalists will be compelled to erect*

all kinds of plants which will in the end remain in our possession. As a matter of fact, in the present conditions the capitalists are but a medium for the transfer of the riches they have accumulated to the common use of the world at large.

"It is therefore not a question of selling the country, but of using Western capital for world revolution. That is our view which is shared by the workmen of the West . . .

"Fears are being expressed that foreign capital will cling to our property, will endeavour to cheat and deceive us, and will exploit our riches in a rapacious manner. *In this connection, we shall see to it that they, and not ourselves, are the losers.*

"Together with our raw materials, we shall carry to the West the revolutionary spirit, the proletarian unity which have maintained us in power for over three years. We must try to remain at peace with all countries as long as possible. Concessions are one of the means to this end. It is stipulated in our treaty that the owners of the concession lose all the rights granted to them by the agreement as soon as hostile action is taken by the respective Government. It should be noted that questions of war and peace are decided by big bankers. War against us would obviously be against their interests."

VIII. *The Question of Security for Credit*

From these typical utterances by the responsible leaders of the Soviet Power, which might easily be supplemented by many editorial declarations from the official Bolshevist press conceived in the same spirit, it is apparent that the Bolshevist policy of offering to grant great economic concessions to American capitalists, is part of a Machiavelian policy which has for its object the embroilment of this and other nations in controversy and, eventually, war. It has no important bearing upon the present economic needs of Russia. Such concessions as that offered to German, Swedish and Norwegian syndicates, and by them rejected, must be entirely worthless unless there is a large investment of capital to exploit them. For such investment it is necessary that there should be at least that measure of security which can only rest upon the good faith of the government granting the concession. From the foregoing utterances by Lenin and Zinoviev it

can be clearly seen that there is not, and there cannot be, any assurance that the Bolsheviki will not confiscate the capital invested in such concessions and cancel the concessions themselves, if and when it suits their purpose so to do. The menace of confiscation is clearly expressed in the utterances quoted. After all, this is perfectly natural and not at all surprising. Why should we expect the Bolsheviki, whose primary object is the destruction of capitalism, and who have confiscated the capital of Russian capitalists with remorseless severity, to tolerate American capitalists in Russia one day longer than desperate need forces them to do so?

To the members of the Senate Committee on Foreign Relations, and to all my fellow citizens, I respectfully submit that while this country needs a great extension of its foreign trade upon the basis of long-time well-secured credit, and can best serve the harrassed and stricken nations of Europe thereby, nothing could be more dangerous to us than to attempt such a large volume of trade upon the basis of insecure credit, and especially to incur the risk of probable repudiation by the debtor nations. We know that the avowed purpose of the present rulers of Russia is the destruction of the prevailing economic system throughout the world, and the overthrow of all existing non-Communist governments. Can we suppose that they would fail to perceive that by repudiation of their obligations to our manufacturers and traders and by the confiscation of millions or billions of American investments they could precipitate a disastrous crisis in this country? Can we reasonably believe that perceiving this opportunity they would fail to make use of it? Let there be no mistake made upon this point: We have already strained our economic system to the limit of safety. Such a financial and industrial crisis as could easily be precipitated by the Soviet Power by means of the repudiation of its obligations to us and the confiscation of American investments, and the inevitable ruin of many of our enterprises consequent thereon, might easily prove the means of bringing about the collapse of our entire economic system. Nothing could well be more certain or obvious than the fact that such an extensive trade with Russia, under existing conditions, would be an invitation to economic bankruptcy and to revolution.

May I remind you, in this connection, that danger of repudiation and its disastrous consequences rests not only upon the perfidy of the Bolsheviki, but equally upon the patriotism of the democratic anti-Bolshevist forces of Russia? Paradoxical as this may at first seem, it is entirely natural and quite easy of comprehension. The Russian people are not, and cannot be, reconciled to Bolshevist rule. The struggle against that infamous tyranny goes on. Soon or late—perhaps sooner than we are ready to meet the responsibilities which will thereby be placed before us—the Bolshevist rule will either collapse of its own rottenness or be overthrown. When that happens, it is morally certain that all agreements entered into by it will be repudiated and annulled. On March 2, 1920, there assembled in Paris, a representative conference of Russian political leaders representing most of the democratic political groups. That conference declared that:

"The Russian people will never consider the agreements between the Soviet rule and other countries as binding upon them. They will not confirm any arrangement by which the property looted by the Soviet rule from Russian citizens will be accepted in exchange . . . Still less will the Russian people tolerate the distribution in its name and on its account, of any of the State property of Russia."

That declaration was signed by Prince G. E. Lvov, former Prime Minister in the Russian Provisional Government; I. I. Petrunkevitch, the founder of the Constitutional-Democratic Party; A. I. Konovalov, former Vice-Prime Minister and Minister of Trade and Industry in the Russian Provisional Government; Prof. Paul Miliukov, former Minister of Foreign Affairs in the Provisional Government; M. M. Vinaver, Chairman of the Central Committee of the Constitutional-Democratic Party; Vladimir Nabokov, leading member of the Constitutional-Democratic Party; Boris Savinkov, former Minister of War in the Provisional Government and a prominent Socialist-Revolutionist; M. I. Stakhovich, E. N. Kedrin, F. I. Rodichev, A. Smirnov, M. S. Adjemov, Prof. Boris Nolde, Prof. M. I. Rostovtsev, P. N. Gronsky, S. Metalnikov, S. G. Lianozov and A. I. Ratkov-Rojnov.

On Mar. 14, 1920, another conference was held in Paris, attended by prominent leaders of the All-Russian Constituent Assembly, which the Bolsheviki suppressed by force of arms, and of the Party of Socialists-Revolutionists, which in the election of 1918 proved to be by far the largest political party in Russia. Among the conferees was Kerensky, whose recent return to the leadership of the anti-Bolshevist forces of democratic Russia is significant. A notable declaration issued by this conference ends with these words: "We know that Russia still has to pass through grave trials, but we also know that Russia will again become a great democratic country. *And the treaties and obligations which her present rulers may assume to conclude in her name and bind her with, cannot be regarded as obligatory and binding upon future Russia."**

IX. *The Danger of Extensive Trade on Credit*

Having regard to these things, I submit that large investments in Soviet Russia, or the extension of any considerable amount of credit to the Soviet Power—which is exactly what extensive trade with Russia means—would jeopardize the entire economic life of America. Russia's needs are enormously in excess of any capital she has or can build up in any reasonable time. In the ten years immediately preceding the World War, Russia's capital building capacity amounted to not over one billion rubles (gold) per annum; her present pressing needs call for an expenditure of not less than thirty billion rubles (gold) in the first three years. This is obviously far in excess of her own capacity and must be furnished by foreign investors, if at all. Foreign capital requires security, and Bolshevism, by its very nature, denies that security. To eliminate capital and profit upon capital is the *raison d'etre* of Bolshevism. To accomplish that end the Bolshevist rulers of Russia are ready and willing to use all possible means, including confiscation and repudiation of every obligation. We have only to suppose millions or billions of American capital to be invested in Russia—goods supplied on the credit basis of Russian securities, for example—and the whole investment con-

*See also Appendix on pp. 29-31.

fiscated and all obligations repudiated by the Soviet Government, to realize how disastrously such a policy by the Soviet Government would affect every American family, especially the wage-earners. It is no ordinary hazard of commerce that we are asked to take; it is to stake our own existence upon credit no more secure than the promise of men who have already revealed their intention and purpose to default whenever and however they can.

Convinced as I am of these things, I do not think that the United States Government should prevent American citizens who want to trade with the Soviet Government, and are prepared to assume all the risks, from doing so. It does not seem to me to be the duty of the Government to place special and unusual obstacles in the way of such trade relations, except, of course, in so far as refusal to recognize the Soviet Power makes trade more difficult than it would otherwise be. Our present policy is identical with that expressed at San Remo by the French and Belgian delegates, on June 7, 1920, namely, "that anyone who is willing to trade with Soviet Russia should do so at his own risk and peril, without any official support or assistance." That policy is entirely sound. At the same time, for the reasons already given, and for others to follow, I would advise American traders against attempting to trade with Soviet Russia, except in a very small way and with the most complete insurance against loss.

X. *Other Nations and Trade With Russia*

Turning now to the purely economic aspects of the subject, it is a significant fact that, notwithstanding their close proximity to Soviet Russia, their keen interest in developing trade with Russia as manifested by the activity of their numerous trade commissions, and the fact that, owing to the state of international exchange rates, they are in a far better position to trade with Russia than we are, Germany and the Scandinavian states have not thus far succeeded in consummating any important amount of trade with Soviet Russia. I respectfully suggest that from the Department of Commerce the Committee on Foreign Relations can secure abundant evidence of the truth of this statement, furnished by our consular representatives. I take steel as an example: It is very well known that one of the most pressing needs of Soviet Russia at the present time is a supply of steel rails and other steel and iron products. It is perhaps less well known, but equally true, that Germany possesses excessive stocks of these very products. She has been obliged to cut her prices about 50 per cent. in order to get rid of this excess. She is at the present time underselling every steel producing nation, including the United States, and the effect of that competition is reflected in the condition of the American steel industry. We could not supply the Russian demand at prices which would compete with the German prices. At the same time, Germany is in dire need of such food products and raw materials as Russia normally exports. She would welcome the barter of her excess steel and iron products for grain, for example, whereas no such trade would be possible for us with our own abundant grain supply. Yet the fact remains that Germany has not been able, despite vigorous efforts on the part of her statesmen and business men, to effect any such exchange.

In this connection, let me call attention to the fact that when I was in Stockholm in October, 1920, I was credibly informed that at Riga there was an immense amount of merchandise which had been consigned to Soviet Russia by British firms, and was being held up at Riga because the Bolshevist purchasing agencies either could not or would not pay for the goods. I was credibly informed that these goods consisted for the most part of things vitally necessary to the people of Russia, such as agricultural implements, leather goods, electrical machinery, condensed milk, and so on. The representative of one British business house informed me that these goods were being returned to England, in some instances, and in others sold in the Scandinavian countries at a considerable loss. Since that time the Latvian paper, *Poja Koeln,* has published an interesting article corroborating this statement of conditions. Doubtless the Russian Division of the Bureau of Commerce and Industry could furnish your Committee with precise and detailed information upon this most important point.

It is now quite well established that Soviet Russia does not possess any large superfluous stocks available for export. The

legend of the "bursting corn bins," referred to by Mr. Lloyd George in a famous speech in the House of Commons, has now been thoroughly exploded. Russia's natural resources are practically unlimited, but there is a world of difference between potential wealth, such as ores in the ground, and actual wealth such as mined ores ready for shipment. Such supplies as there are in Soviet Russia today are stores left over from the old regime, and, except in very insignificant instances, are needed by the Russian people themselves. This is the uniform testimony of the responsible Bolshevist officials. The Moscow *Pravda,* official organ of the Bolsheviki, summed up the matter on Jan. 3, 1920, when it said: "Hitherto we have been living on the stores and machinery, the means of production, which we inherited from the bourgeoisie. We have been using the old stores of raw material, half-manufactured and manufactured goods. But these stores are getting exhausted and the machinery is wearing out more and more." In that same month, Rykov, President of the Supreme Council of the National Board of Economy, declared that the lifting of the blockade could not solve the raw-material crisis, but, "on the contrary, the lifting of the blockade . . . will mean an increased demand for raw materials, as these are the only articles which Russia can furnish to Europe and exchange for European commodities. The supplies of flax on hand are sufficient for a period of from eight months to a year. *But we shall not be able to export large quantities of flax abroad.*"

There is no possibility of any large exports of flax or of wheat from Russia. Any exportation of these must be at the expense of additional misery and suffering inflicted upon the Russian people. How miserably the attempt to exchange Russian wheat for Italian manufactured goods terminated, is presumably well-known to your Committee. The Bolshevist economist, Bagaiev, correctly said in the *Ekonomicheskaya Zhizn* in September last that "There can be no question of the existence of any surplus for export. We shall have to export what we are greatly in need of ourselves, merely for the purpose of getting something still more indispensable in exchange. Every imported locomotive, every plough we get, will have to be paid for literally with strips carved from the body of our national industries."

I ignore for the moment the question of the right of the Soviet Government to dispose of the stocks of commodities they have seized and confiscated, and the question of our right to receive them in trade, and submit simply that it is quite evident that all the commodities the Soviet Government has available for export, including the entire gold and platinum reserve, together amount to only a small fraction of the value of the goods sought; that so far as that portion of the possible trade is concerned, we are in no position to compete with Germany, for example, in view of her readiness to do a barter trade upon the basis of prices we cannot possibly meet; that what Soviet Russia requires from us is an enormous amount of credit, for which there is no security in sight. As an economist I have no hesitation in saying that there cannot be any satisfactory security for extensive credits to Russia until there is such an organization of her productive capacity as Bolshevism by its very nature precludes.

XI. *The Gold Supply of Soviet Russia*

About a year ago, as the result of extensive inquiries, I reached the conclusion that the total gold and platinum reserve of Russia did not exceed 600,000,000 rubles, or about 300,000,000 dollars. When I was in London in September and October last, I checked up my figures against those compiled by the highest authorities in England, and found that these investigators, working quite independently, had arrived at practically identical conclusions. Since that estimate was made there has been some augmentation of the total from various sources, including military conquest, confiscations and mining, but the expenditure for goods and propaganda abroad has certainly been greater. It is certain that the total now in possession of the Soviet Government does not exceed 500,000,000 rubles, or 250,000,000 dollars. That this estimate is excessive, is practically certain. The facts speak for themselves and require no interpretation at my hands.

A very considerable part of the gold in possession of the Soviet Government, approximately 120,000,000 dollars, belongs to Roumania. It is part of the Roumanian gold reserve which was sent to Moscow for safe keeping, before the Revolution of 1917,

when there was danger that it would fall into the hands of Germany. The Roumanian Government has laid claim to this gold, and there can hardly be any dispute as to the validity of the claim. Waiving once more the not unimportant questions of honor and morality involved, it is apparent that to accept such gold in payment for goods, is a very risky business. In addition there are other claims lodged against this gold, notably that of France. It is reported upon credible authority that the French, who are occupying Memel on the Baltic, confiscate all gold which they find being exported from Russia, even taking it from the persons of travellers. They insist that the indebtedness of Russia to France, on account of the great loans to the former Russian Government, must be regarded as a first lien upon the gold of the Russian Government. In addition to that, at the meeting of the Supreme Economic Council last April, the French delegate gave formal notice that France would claim the fifty million francs belonging to the French Government which was on deposit in the Russian State Bank and confiscated by the Bolsheviki. The claim of the French Government set forth that France will "in no circumstances recognize the right of the Soviet Government to dispose of the Russian gold reserve," and will "institute proceedings against all institutions and individuals" who agree to accept gold payments from the Soviet Government or its agents. When we add to these claims by governments with which we were allied in the War, the notification by the Norwegian Government respecting the timber confiscated from its nationals, it becomes quite evident that we cannot accept stolen goods in trade without incurring the risk of serious international complications.

XII. *The Question of Recognition of the Soviet Government*

I return once more to the fact that trade with Soviet Russia upon any considerable scale necessarily requires recognition of the Soviet Power as the *de jure* Government of Russia. All the trade that is possible without such recognition can be had within the limits of our existing policy, without the necessity of changing as much as a single comma in the regulations laid down by our Government. It is easy to see that in the absence of such recognition there are some difficulties involved, but these are by no

means insuperable. They are not greater than those which exist in the case of Mexico, for example. It is also quite easy to see why the Bolsheviki are so anxious to secure political recognition. Their motives are both economic and political. In the first place, recognition would stamp with a certain legality their confiscations and their trade in stolen goods. More important than that, however, is the facility it would afford them to promote social revolution in this country.

The Bolsheviki are pledged to a policy of promoting social revolution throughout the world, and they have used the privileges and immunities granted to their agents and envoys in various countries to foster revolt and to promote intrigues and conspiracies subversive of the existing government. This they have done without a single exception, so far as I have been able to discover. The Department of State could doubtless furnish your Committee with an illuminating record upon this subject. On July 18, 1920, the *Krasnaya Gazetta* published an article by Kamenev, the well-known Bolshevist leader, in which he said: *"Yes, we are hatching a plot against Europe here in Moscow and are hatching it openly."* On August 14, 1920, the Petrograd *Pravda* said: "Russia again forms the focus of world politics. Red Troops are hewing a way for the Communistic Revolution toward Europe, and are overthrowing the Treaty of Versailles, *thereby relieving the fetters imposed upon Germany* by the Versailles Treaty." These representative utterances must be considered in the light of Lenin's declaration to the Conference of the Third International, Dec., 1919: "The international policy of the Soviet Government is guided by a realization of the interdependence of Soviet Russia and World Revolution." They must be considered in the light of the statement in the article by Radek, published in Maximillian Harden's *Zukunft,* Feb., 1920, that "Soviet Russia, by its very existence is a ferment and propagator of the inevitable World Revolution," and of Trotzky's statement, in Feb., 1919, "Our *whole policy is built upon the expectation of this Revolution.*"

I call the attention of the Committee on Foreign Relations to the following clauses contained in the twenty-one conditions of admission to the Third International, formulated by Lenin, the supreme head of the Soviet Power: "In almost all the countries

of Europe and America the class war is entering the phase of civil war. Under such conditions Communists can have no confidence in bourgeois legality. *They are bound to create everywhere a parallel illegal organization* which at the decisive moment will help the party to fulfill its duty towards the Revolution" . . . "The duty of spreading Communist ideas embraces *the special obligation to conduct a vigorous, systematic propaganda in the army.* Where this agitation is hindered by exceptional laws it is to be carried out by illegal means."

I do not attempt to interpret the foregoing characteristic Bolshevist statements, nor do I comment on them. I desire simply to ask your honorable body to take cognizance of the fact that all the agreements the Bolsheviki have yet made with so-called bourgeois governments they have violated and treated as mere "scraps of paper." When in June, 1919, the British Government arranged for the shipment of relief supplies for the alleviation of the suffering of the civilian population of Russia, the Soviet Government, despite its solemn pledge, seized the supplies and appropriated them to the use of the Red Army. In like manner they violated their agreement in the matter of trade with the Cooperatives. They sent the representatives of the Cooperatives to the United States and to England and France to arrange for the resumption of trade with Russia through the medium of the Cooperatives. On Jan. 16, 1920, the Supreme Economic Council of the League of Nations agreed to resume trade with Russia through the Cooperatives, but the Soviet Government refused to permit it, *insisting upon recognition as a condition sine qua non.*

On Aug. 27, 1918, the Soviet Government signed an agreement with Germany, an agreement initiated by itself, by which it undertook not to indulge in "any agitation against the State and military institutions of Germany." Immediately thereafter it began to violate the agreement and sent millions of rubles to Berlin for revolutionary propaganda—a fact admitted by Tchitcherin, the Soviet Foreign Minister, in an official note to the German Foreign Office, the text of which was published in *Izvestia* Dec. 26, 1918. Joffe, the accredited Bolshevist Ambassador to Germany, after his expulsion for his shameful misuse of the customary diplomatic privileges and immunities, boasted that "the Russian Government as a whole, and its accredited representative in Berlin, never concealed the fact that they were not observing this article and did not intend to do so." Recently, Germany has had another unpleasant experience with the Bolsheviki, though this concerns representatives of the Third International and not of the Soviet Government, as such. In practice this distinction is of very little consequence. Permission was given to the Bolshevist delegates, Losovski and Zinoviev, to visit Germany in connection with a Socialist Congress. The permit was given on the explicit undertaking to refrain from political agitation. Both men so shamefully violated the terms of the agreement that Dr. Simons, the German Foreign Minister, had to cause their expulsion from the country.

Every government that has had official relations with the Bolsheviki through accredited envoys has been treacherously attacked and compelled to expel the envoys for flagrant offenses, including the misuse of their diplomatic privileges and immunities to foment revolutionary agitation. Great Britain had to expel Litvinov, the Bolshevist diplomat. It was proved, in a British court, that Litvinov had used his privileged position to incite revolutionary conspiracies to overthrow the British Government. When Litvinov was chosen to head the Soviet Trade Mission to England last year, the British Government refused to receive him, so Kamenev was sent instead. Kamenev's conduct was so outrageous that he was compelled to leave the country. He deliberately altered official messages from his Government which he had been ordered to submit to the British Government, for the purpose of misleading the latter, and in spite of pledges given by himself and his Government that he would abstain from all propaganda, direct or indirect, he actively participated in the subsidizing of the *Daily Herald* out of funds realized from the secret and illegal sale of stolen Russian jewels. Not in the diplomatic history of a hundred years, I venture to say, can there be found any parallel to the excoriation of this Bolshevist diplomat by Mr. Lloyd George, the British Premier, on Sept. 10, 1920, in a five hour conference.

Switzerland had to expel the accredited Bolshevist representatives for their intrigues, taking them to the Swiss frontier in

guarded motor cars. Denmark had to compel the regular Bolshevist envoy and Litvinov, the Bolshevist trade representative, to leave the country on account of their participation in movements aiming at revolution in Denmark. Sweden, which had a Social-Democratic Government, and readily received the Bolshevist Minister, had to expel him and close the Legation. Litvinov, who had been permitted to reside in Christiania, and to conduct trade negotiations on behalf of Soviet Russia, was ordered to leave the country by the Norwegian Government, again because of his participation in movements directed against the very existence of the Norwegian State.

This is only a partial record such as a private individual has been able to gather from such sources as are open to private individuals. Doubtless the Department of State is in possession of much more complete data. Upon the basis of the evidence herein contained, I respectfully submit to the Committee on Foreign Relations of the United States Senate that two conclusions are irresistible, namely: (1) That there is no reason for changing, in any particular, the present policy of refusing to recognize, hold official relations with or receive the agents of the Soviet Government; (2) The present policy with respect to the regulation of trade relations with Soviet Russia should be maintained as being in complete harmony with American ideals and the best traditions of our dealings with other nations.

Respectfully submitted,

JOHN SPARGO.

Old Bennington, Vermont.
January 24, 1921.

APPENDIX

After the Memorandum was submitted to the Committee on Foreign Relations of the United States Senate, an important Conference of the members of the All-Russian Constituent Assembly took place in Paris. The Conference was attended by prominent representatives of all Russian democratic factions opposed to Bolshevism. Among the leaders of the Constitutional-Democratic Party there were present Paul N. Miliukov, former Minister of Foreign Affairs in the Russian Provisional Government; A. I. Konovalov, one of the leaders of the Russian industry and former Minister of Trade and Industry in the Provisional Government, and M. M. Vinaver, Chairman of the Central Committee of the Constitutional-Democratic Party. Among the leaders of the Social Revolutionary Party there were present A. F. Kerensky, former Prime Minister in the Provisional Government of Russia; N. D. Avksentiev, former Minister of Interior in the Provisional Government, who was chosen Chairman of the Conference; Catherine Breshkovsky, the "Grandmother of the Russian Revolution"; Victor M. Chernov, former Minister of Agriculture in the Russian Provisional Government and President of the All-Russian Constituent Assembly, and V. M. Zenzinov, former member of the Directorate of Five and one of the editors of the "Volia Rossii." Nicholas V. Tchaikovsky, the veteran leader of the Party of People's Socialists and former head of the Archangel Government, also participated in the Conference. The Conference adopted unanimously the following Declaration:

"Having deliberated upon the present international position of Russia, the Conference of Deputies of the Constituent Assembly declares:

1.) After its liberation through the March Revolution, *Russia can never recognize any despotism as a legal authority, particularly the Bolshevist tyranny,* which repudiates the most elementary principles of popular rule and civil liberties, which leans only upon the brute force of bayonets and ruthless terror, destroying systematically the economic structure of the country and striving to set up an economic system based upon compulsory

labor of enslaved workers and peasants. By general and constant uprisings, the masses of the people demonstrate clearly their implacably hostile attitude towards the existing regime.

Only a government which rests upon popular recognition is a lawful authority and can be recognized as such by foreign powers, with all the consequences that follow therefrom.

2.) The peoples of free Russia *cannot hold themselves bound to respect any agreements and contracts whatsoever which may be concluded by the Bolsheviki supposedly in the name of the Russian State.* It will therefore be the first duty of a restored, lawful Government of the Russian State, resting upon universal recognition, to declare as not binding upon itself all international agreements and contracts concluded by the Bolshevist power. All trade agreements will necessarily be revised from a standpoint of their consistency with the vital interests of Russia, the freedom of her economic development and her absolute sovereignty. As for the manner of meeting Russia's indebtedness to other countries, contracted prior to the 7th of November, 1917 (October 25, 1917, old style), as also the question of determining the losses sustained by Russia during the War, and the manner of indemnification, and, generally, the problem of settling the mutual financial obligations between Russia and foreign powers,—these questions will have to be settled at a special International Conference after the reestablishment of a Government in Russia that will enjoy general popular recognition.

3.) It is necessary to remove all artificial barriers in the way of resuming the economic contact of Russia with the rest of the world and to terminate the blockade in all its forms, for the burden of the blockade as a system of fighting a government rests mainly upon the shoulders of the innocent population. Only after the lifting of the blockade will the masses understand fully where the real source of all their unbearable, inhuman miseries lies, for it is not so much in the blockade, which, as a matter of fact, gripped Russia three years before the Bolshevist upheaval, as rather in the entire economic policy of the Bolsheviki that the cause of the total destruction of the national economy of that great country is to be looked for.

The Conference deems it its duty to point out the terrible

danger that lies in the possibility that in the course of the restoration of the economic bonds between our country and the outside world, the attempts of the Bolsheviki to postpone the hour of their inevitable collapse at all costs may easily find support in outside efforts to turn the Bolshevist power into a weapon of the political and economic enslavement of Russia. Hence, all attempts to utilize the renewal of economic bonds with Russia for her economic enslavement, or for an artificial bolstering up, against the popular will, of the rule of the Bolshevist usurpers, who will be expected to play the part of a native police force for the protection of the interests of rapacious foreign capital, will meet with our emphatic, active protest.

4.) Proceeding from these considerations, *the Conference repudiates the binding force of the concessions that are being given away to foreigners by the Soviet power,* for in this instance the invitation of foreign capital emanates from an authority which has not been recognized by the people, and it is done on conditions which turn the granting of concessions into a looting of the property of the Russian State, infringing upon the interests and rights of the citizens, and offensive to our civic and national sentiments.

Likewise, we must consider *the illegal squandering of the Russian gold reserve by the Bolshevist power a looting of the State,* this reserve being the basis of the currency and financial system of the country. The dissipation of this reserve will undermine the very possibility of a speedy economic regeneration of Russia. *The Conference protests emphatically against foreign complicity in such dissipation."*

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